National Farmers Union

Testimony of Michael O'Connor

Before the
U.S. House Agriculture Subcommittee on General Farm Commodities and Risk Management

Concerning
Posted County Prices

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STATEMENT OF MR. MICHAEL O'CONNOR

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ON BEHALF OF NATIONAL FARMERS UNION

BEFORE THE U.S. HOUSE AGRICULTURE SUBCOMMITTEE
ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT

REVIEW OF TECHNICAL PROCEDURES OF USDA'S ESTABLISHMENT OF POSTED COUNTY PRICES

DECEMBER 14, 2005

Thank you, Chairman Moran and Ranking Member Etheridge, for holding this hearing and providing me the opportunity to testify before your subcommittee concerning the technical procedures of the United States Department of Agriculture's (USDA) establishment of posted county prices. My name is Mike O'Connor; I am a member of the South Dakota Farmers Union and am here to testify on behalf of the National Farmers Union (NFU). I am an independent family farmer from southeastern South Dakota, raising cattle, corn and soybeans. I served as the South Dakota Farm Service Agency (FSA) executive director from 1993-2001, and as the Jerauld county FSA director from 2001-2003.

If there is one thing independent-minded farmers can agree upon, it is the confusion and complexity of posted county price (PCP) setting. The process is something very few can clearly explain or comprehend. A consistent theme among producers is that the system is inconsistent and unreliable. As a producer and former FSA state director, I have had the unique opportunity to witness the complexities of PCPs from all sides. Producers get easily frustrated, because they try very hard to figure out how the system works, and by the time they think they have it figured out, the PCP will do something opposite what it "should."

The objective of posted county prices is to determine a value as close as possible to the local cash market price in any given area. Each county has a determined posted county price based on the prior days market close for a particular commodity. My home county, Union county in South Dakota, bases its PCP off the higher of two terminal market points, Minnesota and Portland, and the additional differentials and discounts. More often than not, the PCP is out of touch with what the local cash market price is doing.

One out of every three rows of corn is processed into ethanol in South Dakota. Because loan rates are set on the distance from a market, the value-added markets such as ethanol plants are not taken into account. The price for corn sold to an ethanol plant follows the Chicago Board of Trade (CBOT) price. Most producers understand the workings of the market based on the CBOT, which establishes the market followed by all forms of grain marketing my region.

Often, the PCP will follow the CBOT, but not always. There are occasions when the CBOT closed higher or lower and the following days PCP was just the opposite or not the same fluctuation. This is very frustrating for many producers who want to understand the PCP setting process and be better marketers of their commodities.

Differentials

One of the biggest problems producers see with their PCP is inconsistent differentials. The transportation differential this year has undoubtedly been compounded by skyrocketing energy prices. Energy surcharges tacked on by transportation entities, whether rail, ground or barge, not only are paid directly out-of-pocket by producers, but also impact the degree of differentials used to establish a posted county price.

Evidently differentials can be altered to fit a situation, thus being reactionary in nature. For example, the 2004 corn crop PCP was actually higher than the local markets at the end of the summer in 2004. USDA did not want forfeited market loans and was able to make adjustments and add differentials into the PCP rate. This resulted in many of the buyback rates across county lines and state lines being significantly apart. There seems to be a "black hole" with other deductions and no explanation; increasing transparency in establishing differentials would go a long way in understanding how and why a PCP rate is where it is.

Some have said in the past that PCP establishing is a "closely guarded USDA secret," to prevent market manipulation. It seems to me, that it is hard for producers to manipulate the market using day-old markets to establish the PCP rate.

County-to-County/Contiguous States

At times, the PCP between counties is different with no explanation and PCPs between neighboring states are sometimes off. Let me give you an example by looking at the corn buy-back rate in four counties in my area, two in South Dakota and two in neighboring Iowa. From July 1, 2005, through September 30, 2005, South Dakota had a higher buy-back rate 29 of the days at an average of 3.5 cents over Iowa's. Iowa had a higher buy-back rate 16 of those days at an average of 2.06 cents higher than South Dakota's. For the remaining 19 days, South Dakota and Iowa had the same buy-back rate, or no rate was available.

There was a month-long stretch from late August to September where the two counties within the respective states did not have the same the rate. During that month, there are 20 days of data. Here is what happened:

In South Dakota in the 20-day block, 14 of those days, Union and Clay counties had the same rate.

- Two of the 20, Union county had a higher rate at an average of 1.5 cents.

- Four of the 20, Clay county had a higher rate at an average of 4 cents. The largest gap between them in the 20 days was 5 cents

During the same 20-day period in Iowa, Plymouth county had a higher buy-back rate than Sioux county, at an average of 2.2 cents with the largest gap being 3 cents.

Date	Union (SD)	Clay (SD)	Sioux (IA)	Plymouth (IA)
8/24/2005	0.25	0.25	0.24	0.26
8/25/2005	0.32	0.37	0.26	0.28
8/26/2005	0.31	0.36	0.28	0.3
8/29/2005	0.36	0.4	0.3	0.32
8/30/2005	0.4	0.38	0.3	0.33
8/31/2005	0.39	0.38	0.31	0.34
9/1/2005	0.38	0.4	0.39	0.42
9/2/2005	0.29	0.29	0.29	0.32
9/6/2005	0.38	0.38	0.35	0.37
9/7/2005	0.34	0.34	0.31	0.33
9/8/2005	0.42	0.42	0.39	0.41
9/9/2005	0.44	0.44	0.41	0.43
9/12/2005	0.38	0.38	0.37	0.39
9/13/2005	0.4	0.4	0.37	0.39
9/14/2005	0.41	0.41	0.38	0.4
9/15/2005	0.43	0.43	0.4	0.42
9/16/2005	0.44	0.44	0.42	0.44
9/19/2005	0.45	0.45	0.42	0.44
9/20/2005	0.45	0.45	0.42	0.44
9/21/2005	0.44	0.44	0.41	0.43

Source: USDA/FSA buy-back rates on 2004 corn

Solutions

There is no quick and easy solution that would be perceived as fair to all producers. Determining the responsible party for discrepancies, whether it is USDA or grain merchandisers, would be a step in the right direction. I would also encourage greater transparency into the process of setting PCPs with better utilization and reflection of local markets.

Thank you, Chairman Moran and Ranking Member Etheridge, for this opportunity. I am happy to answer any questions you may have.